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**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Testimony of DRA
on the Application of
Southern California Gas Company
San Diego Gas and Electric Company
and
Southern California Edison Company
For Approval of Changes to Natural
Gas Operations and Service Offerings
in A. 06-08-026**

San Francisco, California
March 22, 2007

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1 **MEMORANDUM**

2
3 The Division of Ratepayer Advocates (DRA) of the California Public
4 Utilities Commission (Commission) prepared this report as part of the
5 Commission’s proceeding to review Application (A).06-08-026, filed by Southern
6 California Gas Company, San Diego Gas and Electric Company and Southern
7 California Edison Company (the Applicants) requesting authority for approval of
8 changes to natural gas operations and service offerings. DRA’s report analyzes
9 only specific portions of the Applicants’ request and makes recommendations
10 related to those portions of their request. DRA reserves the right to comment on
11 any other aspects of the Applicants’ request in briefs.

12 Appendix A of this report contains the prepared qualifications of DRA’s
13 witness Pearlie Sabino.

1 **A. SUMMARY AND RECOMMENDATION**

2 The Division of Ratepayer Advocates' (DRA's) testimony discusses two
3 components of the request of Southern California Gas Company (SoCalGas), San
4 Diego Gas & Electric Company (SDG&E), and Southern California Edison (SCE),
5 the Applicants in this proceeding, for approval of a number of changes to natural
6 gas operations and service offerings as set forth in Application (A.)06-08-026.
7 The proposed changes arise from two executed settlement agreements: (1) the
8 Continental Forge Settlement (CFS) and (2) the Edison Settlement (ES) entered
9 into by Sempra Energy, SoCalGas and SDG&E (and other Sempra affiliates) and
10 SCE (and affiliates) pertaining to certain lawsuits out of the 2000-2001 California
11 energy crisis. The CFS has 16 proposed structural changes to the utilities'
12 operations as outlined in Appendix A to the Application. The ES has 18
13 additional proposed structural changes to utilities' operations that are
14 characterized as supplementing the CFS. DRA's testimony addresses the
15 proposed combined core portfolio for gas storage and the proposed core winter
16 hedging outside of the Gas Cost Incentive Mechanism (GCIM) components of the
17 Applicants' request and provides corresponding policy recommendations. DRA
18 reserves the right to comment on any other aspects of the Application in briefs.

19 This testimony addresses the proposed consolidated core portfolio for gas
20 storage as presented by Mr. Paul Goldstein and Mr. Johannes Van Lierop in their
21 testimony in support of A.06-08-026, as well as the proposed modification to the
22 GCIM that pertains to winter hedging as presented by Mr. William Reed. DRA
23 reviewed testimony submitted in this proceeding and Rulemaking (R.) 04-01-025
24 as well as all workpapers and discovery responses.

25 DRA opposes the proposed reduction in the level of core gas storage
26 inventory for SoCalGas' and SDG&E's combined core procurement portfolio for
27 reasons explained in this testimony. DRA also opposes the proposed winter
28 hedging outside the Gas Cost Incentive Mechanism (GCIM) for the period of the
29 settlement.

1 The Applicants’ proposed reduction of storage inventory to 70 Bcf is
2 insufficient for the combined core portfolio of SoCalGas and SDG&E. There is
3 no adequate justification for the proposed reduction in the existing storage
4 inventory reservation for the combined core portfolio of SoCalGas’ and SDG&E’s
5 core customers. The Applicants as public utilities have an obligation to serve
6 customers and to provide reliable service, at the lowest reasonable cost.¹ The
7 utilities’ core customers should have assurance of firm reliable service and should
8 not be put at risk for higher prices or gas shortages during periods of peak gas
9 demand. If the core portfolio is consolidated, the consolidation should not result
10 in greater risks and/or costs to core customers than those customers face under the
11 currently separate SoCalGas and SDG&E procurement departments.

12 Reducing the gas storage inventory for the combined portfolio would result
13 in less gas available for withdrawal during the higher cost winter heating season.
14 Applicants offer inadequate justification to reduce the seasonal arbitrage
15 opportunity by decreasing storage inventory for the combined portfolio relative to
16 the separate portfolios. DRA recommends that in order to serve a consolidated
17 portfolio adequately, reliably, and at the lowest reasonable cost, the combined
18 SoCalGas and SDG&E portfolio should contain storage inventory equivalent to
19 the amount currently held by the separate portfolios for core customers. This total
20 is higher than proposed in the CFS and ES. Specifically, DRA recommends that
21 the combined core procurement portfolio include the following storage and
22 interstate parameters:

- 23 • at least 83 Bcf of gas storage inventory, including the 4 Bcf of
24 cushion gas related inventory authorized in D.06-12-010, which
25 is currently part of SoCalGas’ core storage inventory but will be
26 addressed in the next BCAP;

¹ Section 451 of the Public Utilities Code.

- 1 • 368 MMcf/d of firm injection;
- 2 • 2,225 MMcf/d of firm withdrawal rights;
- 3 • no change to the current Commission-authorized range for firm
- 4 interstate capacity contracts which is between 997 MMcf/d and
- 5 1,196 MMcf/d of interstate pipeline capacity on an annual
- 6 average basis for SoCalGas and between 140 MMcf/d and 168
- 7 MMcf/d for SDG&E, unless modified by future core gas
- 8 forecasts;and
- 9 • core gas storage rates set on a cost-of-service basis;

10 With respect to hedging, DRA recommends:

- 11 • Rejection of the Applicants’ proposed core winter hedging
- 12 outside of the GCIM and order the filing of a separate
- 13 SoCalGas/SDG&E application so that the actual hedging
- 14 proposals may be adequately evaluated; and
- 15 • If hedging outside the GCIM as requested by the Applicants is
- 16 approved by the Commission, then modify the GCIM sharing to
- 17 80/20, and revisit the hedging exclusion from the GCIM in 3
- 18 years, and require that the annual hedging plan be submitted by
- 19 an application.

20 **B. CORE GAS STORAGE ISSUE**

21 **1. Background and Introduction**

22 The utilities serve the load requirements of their core customers either
23 through withdrawals from core storage inventory or from the purchase of flowing
24 supplies. SoCalGas currently holds 74 Bcf of gas storage inventory for its core
25 customers (with a +5/-2 Bcf November 1 inventory tolerance), 327 MMcf/d of
26 firm injection rights (plus as-available), and 1,935 MMcf/d of peak winter

1 withdrawal rights.² Recently in D.06-12-010 the Commission allocated an
2 additional 4 Bcf of storage inventory to SoCalGas core customers which results in
3 a core reservation of 74 Bcf rather than 70 Bcf. That allocation is subject to
4 review in the next BCAP.³ SoCalGas core customers pay for storage inventory in
5 bundled cost-based transportation rates.⁴ The remainder of SoCalGas' storage
6 capacity is made available to noncore customers participating in the unbundled
7 storage program. SoCalGas' core currently has a total of 985,000 MMBtu/d of
8 firm interstate capacity rights under contract from Transwestern, El Paso, and
9 Kern River.⁵ SoCalGas states that its core is currently authorized to hold between
10 1,048 MMcf/d and 1,258 MMcf/d of interstate pipeline capacity on an annual
11 average basis.⁶

12 SDG&E is an affiliate of SoCalGas and is also a noncore wholesale
13 transportation customer of SoCalGas. It currently receives all of its gas through
14 SoCalGas and has a gas storage service contract with SoCalGas. SDG&E's
15 current gas storage contract with SoCalGas provides for 9 Bcf of inventory,
16 42,000 MMBtu/d of firm injection rights and 297,000 MMBtu/d of firm
17 withdrawal rights for its core customers.

18 In the past, the appropriate level of SDG&E's core storage as well as rates
19 and terms have been determined in the Biennial Cost Allocation Proceeding

² See SoCalGas/SDG&E Mr. Goldstein's Direct Testimony, p.3 and Mr. Van Lierop's, p.2.

³ D.06-12-031 ordered SoCalGas and SDG&E to file their BCAP applications no earlier than October 1, 2007 and no later than December 15, 2007.

⁴ Refer to D.06-09-039. The cost of the additional 4 Bcf is paid for by customers in the California Alternate Rates for Energy (CARE) program.

⁵ Goldstein Testimony, p.3.

⁶ Van Lierop Testimony, p.2. However, since the Applicants' testimony was filed, DRA understands that SoCalGas has filed Advice No. 3658 which updated the Commission-authorized interstate pipeline capacity range. The updated range for April 1, 2007 through March 31, 2008 is between 997 MMcf/d and 1,196 MMcf/d. Similarly, the updated range for April 1, 2008 through March 31, 2009 is between 999 MMcf/d and 1,198 MMcf/d.

1 (BCAP) process rather than through auction and negotiation.⁷ More recently,
2 SDG&E's core gas storage reservations have been arranged annually in contracts
3 obtained at market-based rates and filed in advice letters to the Commission for
4 approval. From April 1, 2007 through March 31, 2008, SDG&E has contracted
5 for 9 Bcf of inventory, 42,000 MMBtu/d of firm injection rights, and 297,000
6 MMBtu/d of firm withdrawal rights for its core customers.⁸

7 SDG&E has a total of 150,766 MMBtu/d of firm interstate capacity rights
8 under contract from Transwestern, El Paso, Kern River, and various pipelines
9 accessing Canadian supplies which allows it to serve core customers through
10 flowing supplies.⁹ The Commission authorized annual capacity range for SDG&E
11 in 2006 is 139 MMcf/d to 167 MMcf/d.¹⁰

12 The Commission in Resolution G-3387 approved two SDG&E gas storage
13 contracts with SoCalGas submitted through an advice letter filing in early 2006,
14 noting:¹¹

15 "These storage contracts will provide firm storage
16 service for SDG&E's core customers beginning April
17 1, 2006 through March 31, 2008."

18 The Commission has recognized the importance of providing SDG&E's
19 core customers with firm gas storage reservations. The first of these two gas
20 storage contracts provided SDG&E with 7.8 Bcf of storage inventory capacity for
21 the period April 1, 2006 through March 31, 2007 and the second, with 9 Bcf of
22 storage inventory for the period April 1, 2007 through March 31, 2008. These

⁷ Resolution G-3378, p.6.

⁸ Goldstein Testimony, p.5.

⁹ Ibid.

¹⁰ Ibid. Since filing of the testimony, SDG&E has filed Advice Letter 1638-G to update its 2006-2008 interstate capacity planning ranges based on the 2006 California Gas Report. SDG&E updated its 2006 capacity planning range to between 140 MMcf/d and 168 MMcf/d effective November 1, 2006 through March 31, 2009.

¹¹ Refer to Resolution G-3387.

1 storage contracts for SDG&E’s core customers, under the SoCalGas Transactions-
2 based Storage program, were acquired at market-based rates.

3 **2. The Applicants’ Proposal for Combined Core Gas**
4 **Storage in A.06-08-026**

5 In their testimony in support of this Application, Mr.Goldstein and Mr.Van
6 Lierop state:¹²

7 “ The consolidated portfolio will have the following
8 assets to serve the combined core procurement load:

- 9 • 70 Bcf of storage inventory,
- 10 • 327 MMcf per day of firm injection rights,
- 11 • 2,225 MMcf per day of firm withdrawal rights,
- 12 and
- 13 • Approximately 1,135 MMBtu per day of
14 interstate capacity.”

15 **3. Past Commission Decisions**

16 In D.90-09-089, the Commission stated that in calculating the amount of
17 capacity to be set aside for the core, the capacity needed to have sufficient gas in
18 storage to serve core peak day and cold winter season requirements shall also be
19 taken into account.¹³

20 In D.93-02-013, the Commission adopted rules for storage service and the
21 unbundling of storage services for the 3 utilities (SoCalGas, SDG&E, and PG&E).
22 FOF #s 25-27 states that SoCalGas’ core reservation of 70 Bcf of storage
23 inventory, 327 MMcf/d of storage injection capacity, and 3207 MMcf/d of storage
24 withdrawal capacity for core requirements is reasonable and should be approved.
25 Conclusion of Law (COL) #5, with respect to storage services, describes the
26 utilities obligation to serve core customers as necessary to provide core reliability
27 at the lowest possible cost. It is noteworthy that as far back as 1993, SoCalGas

¹² See Mr. Goldstein’s Direct Testimony, pp.7-8 and Mr. Van Lierop’s. pp.1-4.

¹³ Refer to D.90-09-089 Appendix A pp.3-4.

1 held 70 Bcf for its core customers. Fourteen years later, the Applicants have not
2 adequately justified storage inventory of only 70 Bcf to meet the requirements of a
3 combined portfolio in 2007 and future years.

4 In D.00-04-060, the decision that approved SoCalGas' 1999 BCAP
5 allocation, the Commission adopted SoCalGas' core storage proposal of 70 Bcf of
6 inventory. The same decision approved 327 MMcf/d of firm injection and 1,935
7 MMcf/d of firm withdrawal capacity for SoCalGas. It likewise authorized 1,044
8 MMcf/d of interstate pipeline capacity for SoCalGas. The Commission also
9 approved the Joint Recommendation of parties on the 50/50 balancing account
10 treatment of unbundled storage revenues and to set the at-risk unbundled storage
11 level at \$21 million.¹⁴

12 SoCalGas is required to meet the November 1 core storage inventory target
13 of 74 Bcf of physical gas supply with an accepted variance of +5/-2 Bcf as
14 established in the recent D.06-10-029 and D.06-12-010.

15 In D.06-09-039, the Commission described SoCalGas' storage services as
16 divided among core services, system balancing services, and the SoCalGas
17 unbundled storage program.¹⁵ Further, D.06-09-039 noted that both core storage
18 services and system balancing services are provided to customers on a cost of
19 service basis.¹⁶ These costs are bundled into SoCalGas' transportation rates. On
20 the other hand, SoCalGas' unbundled storage services are on a negotiated basis
21 under several storage tariff schedules.¹⁷

22 The Commission recognized that storage has a unique reliability function as
23 a physical hedge that provides greater certainty than either flowing supplies or
24 price hedging. The Commission found that "we want to encourage a balanced

¹⁴ D.00-04-060.

¹⁵ Refer to D.06-09-039, p.40.

¹⁶ Id., p.42.

¹⁷ Id.

1 reliance on stored gas because of the seasonal difference in gas demand, because
2 there is a substantial storage capability, and because stored gas is an important
3 physical hedge.”¹⁸ The Commission found also that “[s]torage serves purposes
4 far beyond price hedging, and provides certainty that cannot be matched by a
5 reliance on flowing supply.”¹⁹

6 **4. DRA’s REVIEW AND FINDINGS**

7 DRA opposes the Applicants’ proposed combined core portfolio of gas
8 storage because the diminished storage inventory and injection rights would
9 impair the ability to serve core customers reliably particularly over the winter
10 periods, and would reduce the volume of seasonal arbitrage for core customers,
11 thereby increasing core gas procurement costs. DRA is not opposed to the core
12 portfolio consolidation if the appropriate level of gas storage inventory and
13 injection rights are dedicated to the portfolio.

14 **(a) Diminished Storage Inventory and Firm**
15 **Injection Capacity in the Proposed**
16 **Combined Core Gas Storage**

17 SoCalGas’ core customers currently have 74 Bcf level of storage inventory.
18 Including SDG&E’s current 9 Bcf of core customer reservations with SoCalGas’
19 core customer reservation in the combined core procurement portfolio of gas
20 storage inventory yields a combined storage inventory of at least 83 Bcf. In the
21 absence of evidence supporting such a drastic decrease in storage allocated to core
22 customers of both utilities, the proposed 70 Bcf should be deemed inadequate for
23 the combined core procurement portfolio of gas storage.

24 The utilities acknowledged that “the proposed storage inventory capacity
25 for the combined core portfolio is a reduction in the current reservation by

¹⁸ Finding of Fact #2, D.06-09-039, p.171.

¹⁹ Finding of Fact #22, D.06-09-039, p.173.

1 approximately 13 Bcf.”²⁰ The proposed settlement for the combined core storage
2 fails to include the amounts allowed by the tolerance band and the reservation
3 amount for SDG&E’s core storage inventory, and the additional 4 Bcf of
4 inventory allocated to the core in D.06-12-010.

5 The proposed combined level of firm injection rights is similarly deficient.
6 SoCalGas core customers currently have 327 MMcf per day of injection rights.
7 The Applicants proposed allocating that exact same amount to meet the needs of
8 both SoCalGas and SDG&E customers. If SDG&E’s firm injection rights of
9 approximately 41 MMcf per day (equivalent to 42,000 MMBtu per day currently
10 under contract) were included in the combined core portfolio of firm injection
11 rights, the result would be at least 368 MMcf per day (i.e., 327 + 41). Therefore,
12 in the absence of evidence supporting the proposed decrease of 41 MMcf/d
13 combined injection rights, the combined core portfolio of injection rights of 327
14 MMcf per day should be deemed insufficient for both SoCalGas’ and SDG&E’s
15 core customer needs.

16 The Applicants have recognized the need to provide core customers of
17 SoCalGas and SDG&E adequate firm withdrawal rights: the proposed 2,225
18 MMcf per day of withdrawal rights is the combined total of SoCalGas’ current
19 1,935 MMcf per day of withdrawal rights and SDG&E’s approximately 290
20 MMcf per day of withdrawal rights (equivalent to the 297,000 MMBtu per day
21 currently under contract).²¹ Therefore, in the case of withdrawal rights, the
22 combined core portfolio is sufficient. The Applicants indicate that the storage
23 withdrawal reservation will be reviewed and possibly changed in the upcoming
24 BCAP.²²

²⁰ Refer to SoCalGas/SDG&E Data Response to DRA-PZS3-9b.

²¹ Refer to SoCalGas/SDG&E Data Response to DRA-PZS3-9e.

²² Refer to SoCalGas/SDG&E Data Response to DRA-PZS3-9c.

1 With respect to firm interstate capacity, the proposed 1,135 MMcf per day
2 for the combined core portfolio approximates the combined total of SoCalGas'
3 and SDG&E's lower bound range of Commission-authorized interstate capacity
4 for the April 2007 through March 2008 period. SoCalGas' authorized range for
5 interstate capacity holdings is between 997 and 1,196 MMcf/d for the current
6 period while SDG&E's is between 140 and 168 MMcf/d. When the lower bound
7 of the authorized ranges are combined, the total minimum combined amount is
8 1,137 MMcf/d. When compared to the combined total of the current SoCalGas
9 and SDG&E interstate capacity holdings, the utilities' current holdings are below
10 the total minimum combined amount (1,107 vs 1,137).²³ SoCalGas states that it
11 plans to acquire additional capacity in order to be within the authorized capacity
12 range on an annual average basis.²⁴ Therefore, in the case of firm interstate
13 capacity, the proposed combined core portfolio would hold the approximate
14 aggregate of SoCalGas' interstate holdings and SDG&E's holdings. The same
15 should apply to storage.

16 The interstate capacity reservations for SoCalGas were developed with the
17 understanding that SoCalGas' core would have 70 Bcf of storage inventory for its
18 customers as augmented to 74 Bcf by D.06-12-010. Maintaining the same 70 Bcf
19 reservation after combining the SDG&E portfolio is insufficient to meet the needs
20 of the combined portfolio.

21 When asked about the impact of the proposed structural changes to the
22 utilities' abilities to meet core service reliability, SoCalGas and SDG&E explain
23 the reasons why they believe those structural changes will not impair their abilities
24 as follows.²⁵

²³ The 1,107 MMcf/d consist of SoCalGas' 985,000 MMBtu per day (about 960 MMcf/d) and SDG&E's 150,766 MMBtu per day (about 147 MMcf/d) of firm interstate capacity.

²⁴ Refer to SoCalGas/SDG&E Data Response to DRA-PZS6-1.

²⁵ Refer to SoCalGas/SDG&E Data Response to DRA-PZS3-9b.

1 “The proposed changes to the core balancing rules will
2 provide the core with a 10% balancing tolerance. On
3 very cold winter days the core will receive balancing
4 service from the system operator equal to 10% of core
5 burn which will provide an additional peak capacity of
6 over 300 MMcfd;”

7 “There is no change in the proposed storage
8 withdrawal reservation for the combined core
9 portfolio;”

10 “The proposed storage inventory capacity for the
11 combined core portfolio is a reduction in the current
12 reservation by approximately 13 Bcf. The proposed
13 reduction would require additional flowing supplies
14 during the winter of approximately 86 MMcfd. While
15 this would have some impact on gas commodity costs,
16 the increased reliance on flowing supplies represents
17 only about 5% of core winter load and will not impair
18 service reliability; and”

19 “The core will continue to hold ample interstate
20 pipeline capacity based on Commission guidelines
21 between 100% and 120% of core load.”

22 The utilities have not substantiated the adequacy of the proposed combined
23 core storage based on any of the above claims.

24 **(b) The Applicants Have Not Provided Factual**
25 **Evidence to Support their Proposed**
26 **Combined Core Gas Storage**

27 The Applicants provide no factual evidence to support the adequacy of the
28 proposed combined core procurement gas storage levels for inventory and firm
29 injection rights to meet core service reliability needs. No study or analysis in the
30 application provide any showing that the proposed 70 Bcf of gas storage inventory
31 for the combined core procurement portfolio is sufficient to meet the core service
32 reliability needs of both SoCalGas and SDG&E core customers. The Applicants
33 recognize the need to include SDG&E’s core withdrawal capacity and firm
34 interstate capacity needs in the combined portfolio, but fail to support why they
35 did not maintain similar levels of core gas storage inventory and firm injection

1 rights. Therefore, DRA recommends the Commission reject the Applicants’
2 proposed combined core procurement gas inventory of 70 Bcf and firm injection
3 rights of 327 MMcf/d because these do not adequately provide for the reliability
4 needs of both SoCalGas and SDG&E’s core customers and unnecessarily reduce
5 core cost arbitrage opportunity.

6 SoCalGas and SDG&E concede that there are no studies supporting the
7 negotiated levels,²⁶ but contend that the proposed combined core storage
8 reservations are the result of a negotiated settlement that should not be looked at in
9 isolation from the rest of the settlement package. The Applicants’ desire to put
10 litigation related to the energy crisis of 2000 behind them does not relieve them of
11 their obligation to serve customers reliably, consistent with Commission guidance
12 about appropriate core storage levels. Furthermore, since no core customer
13 representatives are parties to the settlement agreements, there is no guarantee that
14 the “trade-offs” fairly balanced core ratepayer interests and other interests.

15 The Applicants apparently traded-off reliable and cost effective levels of
16 core gas storage in exchange for other elements in the settlement package,
17 requiring (1) greater reliance on flowing supplies in lieu of additional storage gas
18 for core customers; (2) treating core customer service reliability needs the same as
19 other noncore or other customers for the purchase of additional inventory; and (3)
20 relying on the proposed System Operator to provide the core with balancing
21 service on very cold winter days equal to 10% of core burn for an additional peak
22 capacity of over 300 MMcf/d. DRA does not see any equity in any settlement
23 trade-offs made by the Applicants in exchange for a diminished core gas storage.
24 The Application fails to show that it is reasonable for core customers to bear the
25 results of this trade-offs, and DRA therefore vehemently opposes the proposed
26 cuts to core storage inventory and firm injection capacity.

²⁶ Refer to SoCalGas/SDG&E Data Response to DRA-PZS3-14.

1 (c) **Core Service Reliability Needs for Gas**
2 **Storage Is Not the Same as Those of Noncore**
3 **and Other Users**

4 SoCalGas and SDG&E argue that “the allocation of 70 Bcf would not
5 preclude the consolidated portfolio from trying to contract for more inventory.”²⁷
6 In footnote 8 of Mr. Goldstein’s testimony, the utilities indicate that additional
7 inventory may be acquired in the same manner that noncore customers acquire
8 storage inventory.²⁸ Such an approach is baseless. This effectively demotes the
9 service reliability needs of its core customers and relegates their needs to the same
10 category as noncore customers. If additional storage for core customers were
11 acquired just like any other non-core customer, then there could be no assurance of
12 reliability. There is no guarantee that they would not be prorated or obtain what
13 they need. For instance, in the SoCalGas storage auction for the 2006-2007
14 season, all storage customers (including SDG&E) were prorated capacities due to
15 excess demand for storage services.²⁹ This is inconsistent with a cornerstone of
16 Commission gas storage policy in D.93-02-013 that among others, adopted the
17 hierarchy of customer interest for storage service. The Commission policy
18 decision states the fundamental primacy of core customers’ reliability needs for
19 storage service over any others. The Commission needs to establish an equitable
20 core inventory and injection reservation for the consolidated core portfolio.

21 (d) **Storage Gas Is More Reliable Than Flowing**
22 **Supplies.**

23 SoCalGas and SDG&E do not deny that the proposed core storage
24 inventory of 70 Bcf for the combined core portfolio would result in increased

²⁷ Refer to SoCalGas/SDG&E Data Response to DRA-PZS1-5.

²⁸ Ibid.

²⁹ SoCalGas/SDG&E Data Response to Long Beach Gas & Oil Dept. DR#1, Question 2.

1 reliance on flowing supplies to meet core winter loads.³⁰ According to utilities,
2 the proposed reduction by approximately 13 Bcf would require additional flowing
3 supplies during the winter of about 86 MMcfd.³¹ The utilities acknowledge that
4 this in turn would have some impact on commodity cost. However, they do not
5 believe that this would impair their ability to provide reliable core service. The
6 utilities explain that additional flowing supplies can be securely purchased using
7 firm interstate pipeline capacity rights over the winter period since they could hold
8 up to 120% of average year interstate pipeline capacity.³² However, this would
9 increase core commodity costs in contrast to retaining the current core storage
10 inventory reservation, which would allow core to rely upon lower cost gas that is
11 injected into storage during the summer months.

12 Storage gas is uniquely different and much more reliable than the purchase
13 of flowing supplies. Natural gas can be withdrawn from storage quickly should a
14 sudden need arise. Unlike additional flowing supplies that depend on market
15 prices, supply availability and deliverability, storage gas is readily available when
16 needed and typically acquired at more cost-effective prices (since gas is acquired
17 at lower prices over the injection season).

18 Core service reliability needs are greatest during the winter periods
19 (typically November through March). As such, without sufficient firm injection
20 rights and core gas in storage in the combined core portfolio, a greater reliance on
21 additional flowing supplies would be tantamount to gas purchases regardless of
22 price. During very stressed market conditions in the winter, purchases of
23 additional flowing supplies by the core customers compete with those of noncore
24 customers and other users, increasing pressure on prices. Hence, there could be
25 some unspecified likely impact on commodity costs. The Applicants have not

³⁰ SoCalGas/SDG&E Data Response to DRA-PZS3-14.

³¹ Ibid.

³² Ibid.

1 justified why putting the utilities' customers at risk for even higher gas prices in a
2 volatile environment would be an acceptable trade-off to maintaining additional
3 core gas in storage.

4 **(e) The Value of Sufficient Gas Storage to Core**
5 **Customers Goes Beyond Supply Reliability**

6 Gas storage has value to core customers in a number of ways. First, as
7 discussed above, gas storage enhances core service reliability particularly during
8 the winter periods when demand is greatest. Relying on purchased supplies during
9 the winter months would increase core commodity costs in contrast to retaining
10 current core storage inventory reservation, which would allow the core to rely
11 upon lowest cost gas that is injected into storage during the summer months.

12 Further, sufficient amount of core gas storage has value for seasonal
13 arbitrage. This arbitrage opportunity is created by injecting gas during the
14 summer season when prices tend to be generally lower, and withdrawing gas
15 during the winter when prices tend to be higher. Gas prices are typically higher at
16 the same time that demand is higher. Injecting sufficient amounts of gas storage
17 enables the core customers to take advantage of the seasonal differences in prices.
18 Core customers benefit from the utilities' ability to move supplies into gas storage
19 in the summer when gas demands tend to be lower, to winter, when gas demands
20 are significantly higher. A diminished amount of core gas storage as requested by
21 the Applicants gives away a valuable physical hedge that provides both reliability
22 and price protection to core customers. This is contrary to the expanded hedging
23 programs that have been implemented by each of the utilities to protect core
24 customers from high winter gas prices.³³ The historical seasonal differences in
25 gas prices are illustrated in the chart and graph that follow. The chart shows the
26 price differences between the injection and the withdrawal months while the graph

³³ D.06-08-027

1 presents the monthly average of daily gas prices for the period July 2001 to
 2 February 2007 as compiled from published Gas Daily prices.

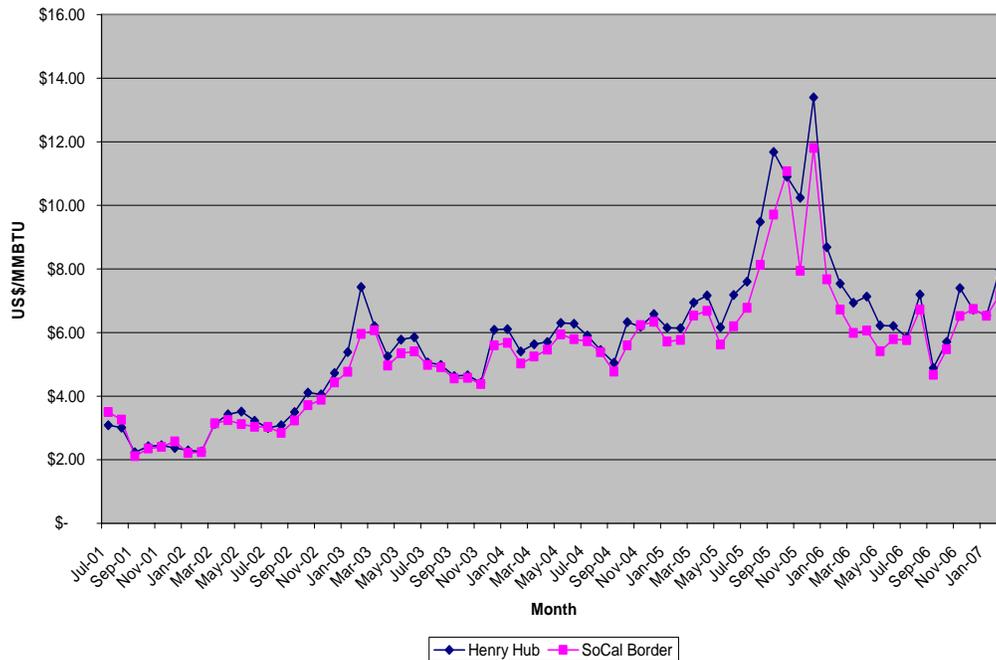
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 5

**Seasonal Price Differences in Gas Prices
 (inUS\$/MMBtu)**

Period	SoCal Border	San Juan	Henry Hub
Apr02-Oct02	3.17	2.53	3.41
Nov02-Mar03	5.02	4.47	5.56
Difference	(1.85)	(1.94)	(2.15)
Apr03-Oct03	4.96	4.42	5.17
Nov03-Mar04	5.18	4.96	5.53
Difference	(0.22)	(0.54)	(0.36)
Apr04-Oct04	5.52	5.14	5.86
Nov04-Mar05	6.11	5.8	6.4
Difference	(0.59)	(0.66)	(0.54)
Apr05-Oct05	7.74	7.33	8.6
Nov05-Mar06	8.03	7.66	9.36
Difference	(0.29)	(0.33)	(0.76)
Apr06-Oct06	5.7	5.36	6.17
Nov06-Mar07	6.66	6.81	7.13
Difference	(0.96)	(1.45)	(0.96)

6 Source: Compiled from daily gas prices published in Gas Daily. March 2007 includes data until
 7 March 20 only.

**Monthly Ave of Daily Gas Prices Jul 2001- Feb 2007
 Henry Hub vs SoCal Border**



8

1 More importantly, as an indication of market expectations concerning
2 prices in the future, prices for futures contracts reflect a seasonal price differential
3 of approximately \$1.60/MMBtu between summer and winter prices for 2007-
4 2008. The seasonal summer/winter differentials for 2008 and forward are in the
5 range of \$1.00/MMBtu.

6 In addition to service reliability and seasonal arbitrage opportunity, the
7 provision of adequate core gas storage also has value for the management of gas
8 imbalances, as explained in the next section. Core customers could also
9 potentially self-balance and avoid incurring additional costs of system balancing
10 with sufficient inventory and injection rights.

11 **(f) The Applicants Should Not Rely on the**
12 **System Operator's Core Balancing for the**
13 **Core Reliability Function**

14 As part of the ES package, core would be subject to the same balancing
15 rules including imbalance charges for exceeding imbalance tolerances as the
16 noncore.³⁴ As such, the core and noncore would have the same balancing
17 tolerance (currently 10%). According to the Applicants, the core would be
18 required to operate in the same manner as the noncore. Applicants state that in
19 exchange for this balancing requirement on the core, the core would be relieved of
20 its obligation to support the system's minimum flow requirements at Blythe since
21 the noncore customers do not have this obligation. The System Operator is the
22 new entity that would assume the responsibility for the system's minimum flow.³⁵
23 The Applicants propose that all customers will bear the System Operator's costs
24 for maintaining the required minimum flow. A cost estimate for the System
25 Operator to take on this responsibility is not available, since according to
26 SoCalGas/SDG&E, it would be highly speculative as it is dependent on many

³⁴ Van Lierop, p.5.

³⁵ Rodger Schwecke Supplemental Testimony, p.

1 factors.³⁶ Mr. Van Lierop’s supplemental testimony also states that “the proposed
2 new balancing rules have the potential to increase core gas costs” and “this is
3 because core may incur imbalance charges.” SoCalGas/SDG&E are unable to
4 quantify these costs. Despite this, they state that the utilities will be able to
5 operate under the proposed balancing rules without incurring a large amount of
6 imbalance charges.³⁷ Without any supporting evidence, DRA is unable to verify
7 SoCalGas’ and SDG&E’s assertions on their ability to operate under the proposed
8 balancing rules without incurring a large amount of imbalance charges.

9 The utilities expect that the System Operator would be performing
10 balancing for the core that would enable them to meet their peak requirements on
11 very cold winter days. In particular, they expect to receive balancing service from
12 the System Operator equal to 10% of core burn which will provide an additional
13 peak capacity of over 300 MMcfd. The proposed tariffs indicate that balancing
14 service will be provided without charge if the cumulative monthly imbalance is
15 within 10% of the customers’ usage (the applicable daily forecast quantity in the
16 case of core). However, during the November through March winter period, the
17 System Operator will require daily balancing and the customers (including core)
18 will be subject to progressively higher percentages of their usage daily as
19 minimum deliveries during a 5-day period.³⁸ That is, from the 50% minimum at
20 the beginning of the winter period, it will increase to at least 70%, then to 90% of
21 usage daily as winter progresses. The trigger for the higher required percentages
22 will depend upon the decline in the utility’s total inventory in storage vis a vis the
23 peak day minimum plus a specified trigger amount in Bcf (i.e., either 5 or 20 Bcf
24 trigger). According to the proposed Schedule G-IMB, volumes not in compliance
25 with minimum delivery requirements will be purchased at the daily balancing

³⁶ Refer to SoCalGas/SDG&E Data Response to PZS2-3.

³⁷ Refer to SoCalGas/SDG&E Data Response to PZS2-11.

³⁸ Refer to Appendix F, Proposed Schedule No.G-IMB.

1 standby rates.³⁹ Moreover, imbalance trading and interruptible withdrawal may
2 not be used to offset the minimum delivery requirements. Imbalance quantities
3 outside the 10% tolerance band will be billed at standby procurement charge or
4 purchased by the utility at the buy-back rate. In this proceeding, the Applicants
5 have not shown they could meet the winter period minimum delivery requirements
6 to avoid the imbalance charges of the System Operator. The appropriate inventory
7 and injection rights proposed by DRA should assure that core requirements will be
8 adequately met.

9 Further, the Applicants state that the core has the option of offsetting the
10 excess (beyond the 10% tolerance limit) with its storage account or trading the
11 imbalance with other customers.⁴⁰ Applicants acknowledge that this assumes the
12 core has unused inventory capacity or excess storage gas available to offset the
13 imbalance.⁴¹

14 It is likely that the allocation of system balancing to core will increase in
15 the next BCAP as a result of this modification. Ultimately, the core will be
16 required to pay for this service. However, if the core simply retained its higher
17 allocation of storage inventory and injection, it could have the ability to self-
18 balance, may not require such services from the System Operator, and would be
19 assured of meeting any system requirements.

20 (g) **SoCalGas and SDG&E's Direct Testimony in**
21 **R.04-01-025 Refutes the Adequacy of the**
22 **Proposed 70 Bcf of Combined Core Storage**
23 **Portfolio**

24 In June 2005, SoCalGas/SDG&E presented direct testimony in R.04-01-
25 025 addressing the utilities' core storage and firm interstate pipeline capacity

³⁹ Based on the G-IMB tariff schedule, this rate is calculated as 150% of the highest SoCal Border price during the 5-day period.

⁴⁰ Van Lierop, pp.5-6.

⁴¹ Ibid.

1 requirements necessary to provide reliable service to their core customers.⁴² This
2 is the most recent available public source to validate the adequacy of the proposed
3 70 Bcf of combined core storage. The testimony was submitted in June 2005, and
4 presumably used the forecast numbers in the 2004 CGR. However, according to
5 the utilities, a comparison of the 2004 and 2006 CGR with respect to SoCalGas’
6 and SDG&E’s core demand forecasts show only minor changes for the 2006-2016
7 forecast period for both SoCalGas and SDG&E.⁴³

8 The testimony explained that SoCalGas used certain established planning
9 criteria and guidance provided by the Commission to determine how much utilities
10 are required to hold in gas storage inventory, injection and withdrawal capacity to
11 ensure adequate supplies for its core customers.⁴⁴ The Commission-adopted
12 criteria include:⁴⁵

- 13 1. A combination of firm pipeline capacity and storage inventory
14 sufficient to serve core cold year requirements;
- 15 2. Firm pipeline capacity at an annual average of between 100% and
16 120% of the average temperature year (“Average year”) daily
17 demand; and
- 18 3. A combination of firm pipeline capacity and storage withdrawal to
19 serve core “peak day” requirements.

20 In short, the criteria require a combination of interstate pipeline and storage
21 capacities to meet core customers’ peak day and cold year winter season
22 requirements. As explained by SoCalGas/SDG&E in that testimony, “[p]lanning
23 for Cold Year requirements is the basis for providing reliable service to core utility

⁴² Refer to SoCalGas/SDG&E Direct Testimony of Herbert Emmrich dated June 14, 2005 in R.04-01-025.

⁴³ Refer to SoCalGas/SDG&E Data Response to DRA-PZS4-1 and PZS4-3.

⁴⁴ Emmrich Testimony, pp.2-4.

⁴⁵ Refer also to SoCalGas/SDG&E Data Response to DRA-PZS3-9a.

1 customers.” In particular, the criteria require SoCalGas to meet 1-in-35 cold
2 temperature year and 1-in-35 peak day requirements for its core customers.
3 Tables 1 and 2 shown on pages 10 and 11 of the SoCalGas/SDG&E testimony in
4 R.04-01-025 presents the core interstate pipeline and core storage inventory,
5 injection and withdrawal capacities needed to meet the said criteria for the 2006-
6 2016 time frame for SoCalGas and SDG&E, respectively.

7 Tables 1 and 2 are reproduced and referenced in this testimony as
8 Attachments A and B. DRA summarizes the SoCalGas and SDG&E core storage
9 inventory capacities in Table 3 shown in Attachment C.

10 Table 1 shows that to meet the established criteria for SoCalGas core
11 service reliability, the SoCalGas forecast core storage inventory amount is 69 Bcf
12 in 2006 through 2010, increasing to 70 Bcf in 2011 through 2015, and to 71 Bcf in
13 2016. Table 2 shows that to meet the established criteria for SDG&E core service
14 reliability, the SDG&E forecast core storage inventory amount is 9 Bcf in 2006
15 through 2012 and increasing to 10 Bcf in 2013 through 2016. When the core
16 storage inventory for SoCalGas and SDG&E as shown in Tables 1 & 2 are
17 combined for the 2006 through 2010 period, the result is 78 Bcf (69 + 9),
18 increasing slightly to 79 Bcf (70 + 9) in 2011 through 2012, and further to at least
19 80 Bcf (70 + 10) in 2013 through 2016. Therefore, based on the prior testimony
20 by SoCalGas and SDG&E and included in this testimony, the proposed reduction
21 to 70 Bcf of storage inventory is both inconsistent with that prior testimony and
22 would not be adequate for the utilities’ combined core storage portfolio. The
23 utilities’ own analysis demonstrates that the combined core portfolio should hold
24 at least 78-80 Bcf of storage.

25 **(h) The Proposed Strategies to Address the**
26 **Utilities’ Diminished Combined Core Gas**
27 **Storage Portfolio are Inconsistent With**
28 **Current Commission Policy**

29 The Applicants’ reliance on either contracting for additional inventory from
30 the G-TBS (or secondary storage market) and/or exclusively on flowing supplies

1 in lieu of additional stored gas to meet the core service reliability needs of core
2 customers for the winter period is unacceptable and unnecessary. The
3 Commission states in D.90-09-089 that in calculating the amount for the core set
4 aside capacity in storage, the capacity needed to have sufficient gas in storage to
5 serve core peak day and cold winter season requirements shall be taken into
6 account.⁴⁶

7 Reliance on contracting for additional inventory from the G-TBS or
8 secondary storage market demotes the core reliability interest. Their reliability
9 interest is relegated to the same category as noncore and/or to the purchase of
10 flowing supplies. The storage capacity that should have been allocated to core in
11 the combined portfolio is presumably made available to the next lower level
12 interest in the unbundled storage program. This is clearly inconsistent with the
13 Commission’s adopted hierarchy of customer interest in D.93-02-013, where core
14 reliability interest is supposed to be at the highest level of customer interest for
15 storage service. The Commission stated in D.93-02-013:

16 “The adopted hierarchy of customer interests is: (1)
17 core reliability, (2) noncore firm service, limited by
18 reservation of core price function storage on a forecast
19 basis, coequal with core price function, and (3) as-
20 available service.”⁴⁷

21 The Applicants’ reliance on the receipt of core balancing service from the
22 System Operator to provide additional peak capacity during very cold winter days
23 is inconsistent with the Commission-adopted criteria to meet core customers’ peak
24 day and cold year winter season requirements. The Commission-adopted criteria
25 include a combination of interstate pipeline and storage capacities to meet core
26 customers’ peak day and cold year winter season requirements needs and clearly
27 excludes core balancing service from the System Operator to meet peak day winter

⁴⁶ D.90-09-089, Appendix A, pp.3-4.

⁴⁷ D.93-02-013, Finding of Fact # 13.

1 reliability requirements. Furthermore, this issue of using the System Operator to
2 meet core reliability needs is moot if core is allocated the proper level of storage
3 inventory and related injection rights equivalent to the level currently held by
4 SoCalGas and SDG&E.

5 (i) **Less Core Gas Storage Would Make More**
6 **Storage Inventory Capacity Available to**
7 **SoCalGas' Unbundled Storage Program**

8 Historical data since the year 2000 show that SoCalGas' revenues
9 generated by the sales of unbundled storage services (generally to noncore
10 customers) have been continually rising.⁴⁸ Preliminary estimates as of the end of
11 2006 show that the revenues are more than triple the amount of allocated cost of
12 unbundled storage. The unbundled storage service program has become very
13 profitable for SoCalGas.⁴⁹ The unbundled storage program under G-TBS
14 currently operates under market-based rates with a price cap of \$14.27/dth.⁵⁰
15 However, the much lower proposed storage caps in the ES (i.e., \$1.63/dth)⁵¹ may
16 threaten the profitability of this unbundled storage service program. Revenues
17 above the allocated cost of \$21 million are shared 50/50 between ratepayers and
18 shareholders.⁵²

19 Making more gas storage capacity available to the unbundled program may
20 be a strategy to offset any potential reductions to its unbundled storage revenues.
21 By allocating less storage inventory capacity in the combined core portfolio for
22 core customers, and choosing instead, to purchase the additional inventory from
23 the unbundled storage program, the secondary market, or relying on purchases of

⁴⁸ Refer to SoCalGas Data Response 1.1 to SCGC DR#1.

⁴⁹ Core and noncore split the 50 percent ratepayer share on the basis of equal cents per therm.

⁵⁰ Refer to SoCalGas Tariffs under Schedule G-TBS.

⁵¹ Refer to Mr. Steve Watson's Direct Testimony in A.06-08-026, p.3.

⁵² Core and noncore split the 50 percent ratepayer share on the basis of equal cents per therm.

1 additional supplies, more storage capacity would be available to the unbundled
2 storage service program. Under the ES, the additional gas storage inventory
3 would allow shareholders to realize increased profits as a result of the 50/50
4 sharing between ratepayers and shareholders. Decreasing core portfolio storage
5 and increasing unbundled storage would benefit shareholders, to the detriment of
6 core reliability.

7 **(j) Core storage Customers Should Continue to**
8 **Receive the Benefit of Storage Paid For in**
9 **Bundled Transportation Rates**

10 SoCalGas core customers have been paying for their share of core storage
11 in their bundled transportation rates since becoming customers of the utility and it
12 is reasonable to continue this practice, even though market prices for storage are
13 rising. According to data from SoCalGas/SDG&E, the fully-scaled storage costs
14 paid by SoCalGas core customers compared to the average price paid by
15 customers for unbundled storage (in \$/dth) were higher in 7 out of 9 years in the
16 period 1998 through 2006.⁵³ Unbundled storage customers paid more than
17 SoCalGas core in only two years, 2002 and 2006.

18 **(k) The Most Recent Winter Shows the Need for**
19 **Adequate Core Gas Storage During Times of**
20 **Cold Peak Demand**

21 As shown in the previous sections above, the proposed combined core
22 storage of 70 Bcf would be inadequate for both utilities to meet core reliability
23 criteria. It is DRA's position that core customers needs the 83 Bcf to meet
24 reliability needs especially under a cold temperature winter scenario.

25 Information from the most recent 2006-2007 winter season provides a good
26 example to support DRA's position. The most recent winter started mild and there
27 was minimal core withdrawal early in the season. However, southern California

⁵³ Refer to SoCalGas/SDG&E Data Response to DRA-PZS5-1.

1 experienced cold weather in January and February and the core drawdown of its
2 storage inventory was significant in those months. Therefore, based on this factual
3 data, if southern California experienced a cold winter then the core customers
4 would require the higher storage inventory to meet their requirements.

5 Based on the foregoing, DRA recommends rejecting the Applicants'
6 proposed 70 Bcf of combined core gas storage. Instead, DRA recommends a
7 combined core gas storage portfolio of at least 83 Bcf, an amount that recognizes
8 the historic 70 Bcf for SoCalGas' core customers, the additional 4 Bcf authorized
9 by D.06-12-010, and the current 9 Bcf for SDG&E's core customers. Until the
10 next BCAP, the total core reservation should be 83 Bcf which includes the 4 Bcf
11 of cushion gas allocated to SoCalGas' core customers. For injection rights, DRA
12 recommends rejecting Applicants' proposed combined injection rights of 327
13 MMcfd be rejected. Instead, DRA recommends 368 MMcfd of injection rights for
14 the combined core portfolio, which is equivalent to the combined total of
15 SoCalGas' current 327 MMcfd and SDG&E's 41 MMcfd. For withdrawal rights,
16 DRA recommends approval of the proposed 2,225 MMcfd of withdrawal rights
17 for the combined core portfolio since it reflects the combined total of SoCalGas'
18 current authorized 1,935 MMcfd and SDG&E's 290 MMcfd. No changes to the
19 most recent Commission-authorized ranges for firm interstate capacity rights
20 pursuant to the implementation of D.04-09-022 are recommended. DRA's storage
21 recommendations are consistent with SoCalGas/SDG&E's own analysis in R.04-
22 01-025, as previously discussed in Section (g).

23 (l) Cost-based Rates for the Core Gas Storage

24 SoCalGas currently provides gas storage for its core customers at cost-
25 based rates while SDG&E's core customers pay market-based rates for firm gas
26 storage reservations pursuant to a contract with SoCalGas that expires March 31,
27 2008. DRA recommends that after expiration of the current SDG&E storage
28 contract, and assuming consolidation of the utilities' core storage portfolios, that

1 the core gas storage rates for SDG&E customers be charged at the current
2 SoCalGas cost-based rate.

3 **(m) Proposed Combined Core Gas Storage in the**
4 **Context of Core Portfolio Consolidation**

5 DRA supports the proposed core portfolio consolidation in this proceeding,
6 assuming the Commission adopts DRA’s recommendations to maintain the
7 appropriate levels of gas inventory storage of 83 Bcf and injection rights of 368
8 MMcfd in the combined core storage. DRA previously supported SoCalGas and
9 SDG&E’s previous attempts to consolidate their core portfolio because of
10 potential savings to the utilities’ core ratepayers.⁵⁴ The prior proposals did not
11 include any explicit recommendation to lower the storage inventory of the
12 combined portfolio. The Application indicates an estimated potential ratepayer
13 savings of about \$2 million from the proposed core portfolio consolidation.⁵⁵
14 These potential savings would result from more efficient organizational structure,
15 management oversight, regulation and regulatory oversight, as explained in Mr.
16 Goldstein’s testimony. However, the reduction of storage inventory for the
17 combined core portfolio relative to the inventory held by the separate portfolios
18 could result in higher core gas procurement costs due to the loss of seasonal
19 arbitrage. In order for the core procurement portfolio consolidation to truly
20 generate savings to ratepayers without putting core customers’ reliability at risk,
21 the Commission should reject the Applicants’ proposed reduction to core gas
22 storage inventory and injection rights and adopt DRA’s recommended inventory
23 of 83 Bcf and injection rights of 368 MMcfd for the combined portfolio.

⁵⁴ Refer to DRA filings in A.01-01-021.

⁵⁵ Goldstein, p.9.

1 **C. PROPOSED HEDGING MODIFICATION TO THE**
2 **GAS COST INCENTIVE MECHANISM AND WINTER**
3 **HEDGING**

4 **1. The Applicants' Proposal**

5 As part of the ES package, the Applicants propose modification of the Gas
6 Cost Incentive Mechanism (GCIM), beginning with the winter of 2007-2008, to
7 exclude all financial transactions used by SoCalGas to hedge natural gas prices for
8 any portion of the November through March period (winter hedges).⁵⁶ This
9 would imply a four-year exclusion from GCIM since the ES is through May 30,
10 2011. In addition, as part of the CFS package, the Applicants propose the review
11 of core procurement plans (called "Gas Plans"), including winter hedging, with a
12 Procurement Review Group (called "Gas PRG"), and the use of compliance
13 Advice Letters to obtain timely approval of these plans before the start of the gas
14 year.⁵⁷

15 **2. DRA Review and Findings**

16 The GCIM is a ratemaking incentive mechanism designed to provide more
17 efficient regulatory controls than its predecessor, i.e., annual reasonableness
18 reviews. It is intended to balance the interests of SoCalGas' core customers and
19 its shareholders. The GCIM measures SoCalGas' actual core procurement
20 performance against a benchmark cost, with a tolerance band around the
21 benchmark cost. There is an agreed upon specific sharing of excess costs that
22 exceed the upper tolerance limit, and the savings if the actual costs are below the
23 benchmark costs, between core customers and shareholders.⁵⁸

⁵⁶ Refer to Direct Testimony of Mr. William Reed, p.6.

⁵⁷ Ibid., p.3.

⁵⁸ Refer to DRA Monitoring and Evaluation Reports for a more detailed description of the sharing mechanism and the tolerance band.

1 Although the Application contains no specific multi-year core winter
2 hedging plan proposal or any other specific aspects of how the core winter
3 hedging will be implemented, the Application proposes to modify GCIM in a way
4 that would alter the balance of interests between core customers and shareholders.
5 Doing winter hedging outside of the GCIM lowers shareholders' risk while
6 potentially increasing core customer risk. Further, the Applicants present no
7 justification whatsoever to support removing long-term core winter hedging from
8 the GCIM. In the recent winters since 2005, the Commission allowed both PG&E
9 and SoCalGas to engage in limited core winter hedges outside the GCIM
10 stemming from conditions brought on by Hurricane Katrina and Rita.⁵⁹

11 DRA opposes the Applicants' proposed hedging modification to the GCIM.
12 This is a profound change to Commission policy that results from the CFS and ES
13 settlement parties' negotiations which directly impacts the core, but excluded any
14 input from DRA. The proposed modification deserves more attention and
15 deliberation than the current package of proposals affords DRA in this proceeding.
16 If approved as requested without any specifics of the winter hedging proposal,
17 then this effectively grants the utilities a license to engage in a winter hedging with
18 unknown elements for the next 4 winters until May 30, 2011. DRA is concerned
19 about the lack of detailed scrutiny and examination on this significant proposed
20 modification. If approved as proposed, the next opportunity for the Commission
21 to consider the specifics of the utilities' multi-year winter hedging plan will be in
22 Advice letter compliance filings. DRA recommends the Commission reject the
23 proposed hedging modification to the GCIM.

24 As a matter of policy, DRA has generally opposed taking hedging outside
25 the performance incentive mechanisms. However, should the Commission
26 approve the Applicants' proposal to take winter hedging outside the GCIM, DRA
27 would recommend a change in the GCIM sharing to 80/20 in consideration of the

⁵⁹ Refer to D.05-10-015 and D.06-08-027.

1 lower shareholder risk. In addition, if approved by the Commission, DRA would
2 recommend the ability to revisit the proposed exclusion from the GCIM in 3
3 years.⁶⁰ Furthermore, the annual hedge plans should be filed as an expedited
4 application so that the actual hedging proposals may be adequately evaluated.
5 Given the lack of specificity, estimated costs or parameters of these plans, it is
6 inappropriate to file these plans as a “compliance Advice Letter.”
7

⁶⁰ Refer to the pending PG&E Settlement Agreement in A.06-05-007 pertaining to PG&E Long Term Core Hedge Program Application.

ATTACHMENTS

Table 1
SoCalGas Core Storage Capacities
(2006 – 2016)

Year	Average Year Interstate Pipeline Capacity based on Average Year Core Demand MMcfd	Inventory Based on Cold Year Average Excess Winter Demand BCF	Injection Capacity Based on Inventory/214 MMcfd	Core Peak Day Demand MMcfd	Storage Withdrawal With Average Year Daily Demand of Interstate Pipeline Capacity MMcfd
2006	1,023	69	320	3,414	2,390
2007	1,030	69	322	3,431	2,401
2008	1,030	69	323	3,455	2,425
2009	1,032	69	323	3,452	2,420
2010	1,034	69	324	3,468	2,434
2011	1,036	70	325	3,483	2,447
2012	1,034	70	328	3,491	2,457
2013	1,038	70	327	3,501	2,463
2014	1,039	70	328	3,511	2,472
2015	1,041	70	329	3,521	2,480
2016	1,042	71	333	3,539	2,498

Note: For each year, the 12-month April through March, starting in the initial year of the forecast period, was used to calculate core procurement gas demand as shown in Appendix A, Table 2.

Source: Prepared Direct Testimony of Herbert S. Emmrich for SDG&E and SoCalGas in R.04-01-025 dated June 14, 2005.

Table 2
SDG&E Core Storage Capacities
(2006 – 2016)

Year	Average Year Interstate Pipeline Capacity based on Average Year Core Demand MMcfd	Inventory Based on Cold Year Average Excess Winter Demand BCF	Injection Capacity Based on Inventory/214 MMcfd	Core Peak Day Demand MMcfd	Storage Withdrawal With Average Year Daily Demand of Interstate Pipeline Capacity MMcfd
2006	141	9	42	435	294
2007	143	9	42	440	297
2008	144	9	43	445	301
2009	145	9	43	446	301
2010	146	9	43	448	302
2011	146	9	44	451	304
2012	147	9	44	453	306
2013	148	10	44	455	307
2014	149	10	44	457	308
2015	149	10	45	458	309
2016	150	10	45	461	311

Note: For each year, the 12-month April through March, starting in the initial year of the forecast period, was used to calculate core procurement gas demand as shown in Appendix A, Table 3.

Source: Prepared Direct Testimony of Herbert S. Emmrich for SDG&E and SoCalGas in R.04-01-025 dated June 14, 2005.

Table 3

DRA Summary of SoCalGas/SDG&E Core Storage Inventory Capacities
(2006 – 2016)

Year	SDG&E Inventory Based on Cold Year Average Excess Winter Demand (BCF)	SoCalGas Inventory Based on Cold Year Average Excess Winter Demand (BCF)	SDG&E & SoCalGas Combined Inventory Based on Analysis in R.04-01-025 (BCF)	Applicants' Proposed SDG&E & SoCalGas Combined Inventory in A.06-08-026 (BCF)	DRA's Recommended SDG&E & SoCalGas Combined Inventory in A.06-08-026 (BCF)
2006	9	69	78	70	
2007	9	69	78	70	83
2008	9	69	78	70	83
2009	9	69	78	70	83
2010	9	69	78	70	83
2011	9	70	79	70	83
2012	9	70	79	70	83
2013	10	70	80	70	83
2014	10	70	80	70	83
2015	10	70	80	70	83
2016	10	71	81	70	83

Note: Values in Columns 2 & 3 are from the two previous Tables. DRA's recommended combined core storage inventory of 83 Bcf, include the 4 Bcf in D.06-12-010, and SDG&E's current 9 Bcf of core storage inventory. From 2009 and beyond, the combined core storage inventory in DRA's recommendation is only an estimate that is subject to determination in the next BCAP.

APPENDIX

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PEARLIE Z. SABINO

Q.1. Please state your name and business address.

A.1. My name is Pearlle Sabino. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the State of California at the California Public Utilities Commission (CPUC) as a Regulatory Analyst in the Division of Ratepayer Advocates (DRA).

Q.3. Please describe your educational background and professional experience.

A.3. I have an M.A. in Economics from Ateneo de Manila University and a B.S. in Business Economics from the University of the Philippines. I graduated from the Executive Training Program in Energy Planning and Policy of the University of Pennsylvania. I have worked for 19 years with the largest electric utility in the Philippines in various professional capacities in the areas of economic research, marginal cost studies, project evaluation, corporate budgeting and monitoring, and project financing.

I joined the Commission staff in 1997. In the last 10 years, I have worked on a number of electric and natural gas matters including but not limited to the following: the review of utilities' gas supply plans in the procurement proceeding, SoCalGas' Gas Cost Incentive Mechanism, the review of BCAP applications, various gas transportation contracts and the SoCalGas/SDG&E system integration and firm access rights proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am sponsoring DRA's Testimony in A.06-08-026.

Q.5. Does this complete your testimony?

A.5. Yes, it does.

1 **CERTIFICATE OF SERVICE**

2
3 I hereby certify that I have this day served a copy of the foregoing
4 document “[**TITLE OF DOCUMENT**]” in [**proceeding number**].

5 A copy was served as follows:

6 [] **BY E-MAIL:** I sent a true copy via e-mail to all known parties of
7 record who have provided e-mail addresses.

8 [] **BY MAIL:** I sent a true copy via first-class mail to all known parties of
9 record.

10 Executed in San Francisco, California, on the [**DATE**] day of [**MONTH**],
11 [**YEAR**].

12
13 _____

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